

BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: :

CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :

MISCELLANEOUS ITEMS :

CONSENT MARKETS, TARIFFS AND RATES - GAS :

CONSENT ENERGY PROJECTS - HYDRO :

CONSENT ENERGY PROJECTS - CERTIFICATES :

DISCUSSION ITEMS :

STRUCK ITEMS :

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824TH COMMISSION MEETING

OPEN MEETING

Commission Meeting Room

Federal Energy Regulatory

Commission

888 First Street, N.E.

Washington, D.C.

Wednesday, April 9, 2003

10:10 a.m.

APPEARANCES:

COMMISSIONERS PRESENT:

CHAIRMAN PAT WOOD, III, Presiding

COMMISSIONER NORA MEAD BROWNELL

COMMISSIONER WILLIAM L. MASSEY

ALSO PRESENT:

DAVID HOFFMAN, Court Reporter

PROCEEDINGS

(10:10 a.m.)

CHAIRMAN WOOD: Good morning. This open meeting of the Federal Energy Regulatory Commission will come together to consider the matters which have been duly posted in accordance with the Government in the Sunshine Act for this 9th day of April, 2003.

Please join me in the Pledge to the Flag, followed by a moment of silence.

(Pledge of Allegiance recited and moment of silence observed.)

CHAIRMAN WOOD: Thank you. Madam Secretary?

SECRETARY SALAS: Good morning, Mr. Chairman and good morning, Commissioners. For the record, let me state that since the issuance of the Sunshine Notice on April 2nd, E-17 and M-2 have been struck from this agenda.

Your consent agenda for this morning is as follows:

Electric Items: E-2, 3, 5, 6, 8, 9, 10, 11, 13, 14, 16, 17, 21, 23, 24, 25, 27, 28, 29, 30, 31, 32, and 33.

Miscellaneous Items: M-1 and M-3.

Gas Items: G-1, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, and 20.

Hydro Items: H-1, 2, 3, and 4.

Certificates: C-4 and C-5.

And on G-5, Commissioner Brownell is concurring with a separate statement this morning. Commissioner Brownell votes first.

COMMISSIONER BROWNELL: Aye, noting the concurrence on G-5.

COMMISSIONER MASSEY: Aye.

CHAIRMAN WOOD: Aye.

SECRETARY SALAS: The first item for discussion this morning is a joint presentation of C-1, Southern LNG, Inc.; C-2, AES Ocean Express LNC; and C-3, Tractabel Calypso Pipeline LC.

This is a presentation by Rich Foley, accompanied by Hugh Thomas, Chris Zerby, Robert Machuga, and Gordon Wagner.

MR. FOLEY: I think we have some slides that I hope got put up on the system here.

(Slide.)

MR. FOLEY: Thank you. Good morning, Mr. Chairman and Commissioners. Our group here at the table is presenting three items related to the energy industry's ongoing efforts concerning the development of an imported, liquified natural gas infrastructure. Additional staff members also worked on these cases.

Since the announcement last December of a different Commission policy concerning imported liquified

natural gas, or LNG, we want to report that LNG projects are making steady progress.

(Slide.)

MR. FOLEY: Government, industry, and other stakeholders are working to identify and resolve LNG project siting issues. In the future, LNG will become an increasing proportion of the United States' natural gas supply.

Next slide, please.

(Slide.)

MR. FOLEY: We're going to review some background information for you and the industry's experience with LNG. First note the five LNG import terminals under the Commission's jurisdiction. All five of these will be in service when Cove Point resumes operations later this year.

Further, all the mainland LNG terminals are in various stage of expansion, and a draft final authorization order for the second expansion of Southern LNG project is before you today as Item C-1.

(Slide.)

MR. FOLEY: Shown on this map, the Commission has two onshore LNG terminal projects pending, the blue dots. These are the Hackberry Project, for which Staff has just published its Draft Environmental Impact Statement, and the Freeport, Texas Project.

The Freeport Project was recently filed and has

been reviewed for completeness and critical energy infrastructure compliance. Public notice of Freeport's proposals was issued this Monday.

Also shown with orange dots are the two Bahamian LNG projects, for which the Commission has pending before it, the related international pipeline applications, one of which is the AES Ocean Express Project and a draft preliminary determination for this project is before you today as Item C-2.

Also, letters to the Secretaries of State and Defense regarding the proposed ownership changes of the now-Tractabel Calypso Pipeline project, the other Bahamian-related application, is before you in Item C-3.

Lastly, the map shows with the green, two offshore LNG import terminal projects that are pending with the Coast Guard under the amended Deepwater Port Act. Next slide, please.

(Slide.)

MR. FOLEY: Shown on the next map, there are many possible sites the industry has identified for locations of new LNG import terminals, but no applications for these projects or related pipelines have been filed with the Commission. Next, please.

(Slide.)

MR. FOLEY: This chart depicts the energy

industry's progress in adding LNG important capacity and the expected progression of various projects as we have aggregated them according to their development timelines.

Currently, there is up to 1.85 Bcf a day of imported LNG vaporization capacity available at the three mainland LNG terminals now in operation. That's the bottom box that should appear to be green on the screen and in your papers there.

Next, adding the projects that are now in a construction phase, shown in the red, is another 1.3 Bcf per day of capacity that would be available, most of this coming from Cove Point soon, and then later both at Elba Island and Lake Charles, for a total of 3.1 Bcf a day.

Next, in the purple, we've added 1.5 bcf for the offshore projects that are pending with the Coast Guard. On top of the third bar is show, in orange, the sum of the 1.6 Bcf a day from the Bahamian projects.

We have the related pipeline projects and 3 Bcf per day for the two offshore pending projects, thus adding the existing expanding and pending projects together, it could be as much as 9.2 Bcf a day of imported LNG vaporization capacity eventually available.

Finally, we've heard from over ten different sponsoring companies that are studying about 20 different locations in North America, and those projects could add up

to another 9 Bcf per day of capacity. That's the white box on the top of the last one, thus, adding up all of this, 18 Bcf per day of imported LNG vaporization capacity, if all this were constructed, and continuously delivered to the United States, in part via Mexico and the Bahamas.

It would eventually make up 10 to 15 percent of the nation's annual natural gas supply. Next slide, please.

(Slide.)

MR. FOLEY: As a result of our work on various LNG projects, we note that government, industry, and other stakeholders are learning that LNG import project siting issues are multifaceted, but that innovative ideas and cooperation are resolving these issues.

We've observed that good LNG project siting involves optimizing the best solutions for six critical interrelated siting criteria: First, deepwater port access and compatibility with shipping traffic; second, safety, especially suitability of acreage for safety exclusion zones; third, takeaway capacity in proximity to natural gas pipelines; fourth, acceptance by local communities and government representatives; fifth, coordination of federal and state environmental approvals; and, lastly, technological advances for LNG storage and transfer systems.

To identify and resolve these issues as early as possible, we have been meeting with project sponsors and

encouraging them to use the NEPA pre-filing process. Next slide.

(Slide.)

MR. FOLEY: Thus, today, we ask you to consider three specific agenda items as the next steps in the process of getting LNG import capacity online for the country's energy future: Item C-1, the draft authorization for the second expansion for the Southern LNG Elba Island Project; Item C-2, draft preliminary determination for the AES Ocean Express Project, the pipeline from the Bahamas to Florida; and lastly, Item C-3, the letters related to the Presidential Permit for the Tractabel Calypso Project. This concludes our presentation.

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CHAIRMAN WOOD: Thank you for that, Rich. I just wanted to kind of call attention to this important resource. Certainly over the last year the Commission has learned a lot more about LNG and dealt with it, and I think it was just in October of last year that we focused on this important part of our future natural gas supply mix here at this Commission.

I just wanted to say on the record I'm very pleased to see the type of investment and the type of work that's coming through and appreciate the hard work that our folks here at the FERC are doing and you guys here at the table and our sister agencies, particularly the Coast Guard, who have an important role to play in determining and making assessments of the safety issues that are so critical with this important resource.

So I am voting for all three of these orders today and look forward to more in the future.

COMMISSIONER BROWNELL: And I would vote to support the orders. Aye.

COMMISSIONER MASSEY: Aye.

CHAIRMAN WOOD: Aye. Thanks.

SECRETARY SALAS: The next item for discussion is C-7, Greenbriar Pipeline Company, with a presentation by Mike McGehee, accompanied by Ken Frye, Joe Dooley and Whit Holden.

MR. McGEHEE: May I have the first slide, please?

Good morning, Mr. Chairman and Commissioners.

I'm Mike McGehee, and with me are Ken Frye, Joe Dooley and Whit Holden. We also had other staff members who worked on this item with us.

(Slide.)

Item Number C-7 grants final certificate authority to Greenbriar Pipeline Company to construct and operate a 279-mile-long natural gas pipeline that would extend from an interconnection with Dominion Transmission and Tennessee Gas Pipeline at Dominion's existing Cornwell compressor station near the town of Clendennon, West Virginia, through West Virginia, Southwest Virginia and North Carolina, to its terminus near Stem in Granville County, North Carolina.

The proposed Greenbriar Pipeline will have a capacity of 600,000 decatherms a day. The project will create supply diversity and new competition and meet a portion of the growing energy market needs in the South Atlantic region beginning in November 2005.

Greenbriar has firm long-term agreements for 90 percent of the project capacity. Through its interconnection with Dominion Transmission, Greenbriar will provide its customers with access to a large market hub for the Mid-Atlantic and Northeast regions.

Five major interstate pipelines with access to Gulf and Midwest reserves, and at least two major pipelines connected to Canadian reserves also connect to Dominion and its storage assets. Thus, Greenbriar shippers will have access to a large and very diverse supply of natural gas.

The Greenbriar project will also provide seasonal services, access to storage, and high pressure deliverability.

Ken now has more detail on the prefiling environmental process Greenbriar undertook for this significant project.

MR. FRYE: Next slide, please.

(Slide.)

Greenbriar used the Commission's new NEPA prefiling process during the NEPA prefiling phase of the project under Docket Number PF01-1-000, which started in September 2001. We conducted field inspections, attended meetings with stakeholders, and met with individuals as part of scoping for the project.

This provided stakeholders with an opportunity to identify concerns before Greenbriar filed a final proposed pipeline route and allowed the company to address routing concerns that helped reduce the scope of remaining alternative routing issues that the company had to address in the Environmental Impact Statement.

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(Slide.)

Greenbriar's work with stakeholders during the profiling process resulted in adjustments to more than 30 percent of its route that resolved some routing issues. Examples of these efforts in West Virginia are the Hawk's Nest variation in Fayette County, West Virginia to reduce visual impacts on state park visitors, and realignments of its route in the Piney View and Beckley portions of the project to avoid residential areas.

Next slide.

(Slide.)

Other changes to its route occurred in Southwest Virginia to follow the AEP powerline rather than establishing a new corridor across Floyd, Patrick and Henry Counties, Virginia, and the shifting of its pipeline route further east along the AEP powerline, which moved the route further east of Martinsville, Virginia.

Stakeholders, staff and Greenbriar also worked together in various degrees to develop adjustments to the pipeline route that identified the final alignment along the eastern main line alternative, including an adjustment of the Dan River crossing.

Next slide.

(Slide.)

We also worked with the National Park Service and the U.S. Forest Service to resolve their concerns with crossing the Appalachian Trail, the Blue Ridge Parkway and Jefferson National Forest. This effort culminated in our inclusion of the information these agencies needed in our Environmental Impact Statement so they can use it for their decisionmaking process.

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(Slide.)

Because of coordination, issue identification, and attempts to resolve concerns during the prefiling phase of the project, we were able to complete a draft Environmental Impact Statement in October 2002, four months after the application was filed. The final Environmental Impact Statement was mailed in February 2003, four months later.

As a result of the NEPA prefiling process, this proceeding is before the Commission in April 2003. This represents a seven-month time savings compared to the traditional processing of a major certificate.

This concludes our presentation.

CHAIRMAN WOOD: I want to say I appreciate how hard the staff and the parties and the pipeline worked with this new process, one that we've learned from our hydro experience has a lot of potential for addressing, if not

all, at least a good number of the problems that were raised.

Certainly with any major pipeline, there are siting issues that we certainly care a lot about. I do know that in the changing industry in the past year, there's been some concerns about the load falling off the other end of the pipeline, i.e., is there really a need for the pipeline? And I appreciate the changes that were made to the order to reflect that in fact we have a condition in this order, as we do in other orders, that in order to protect the public interest, we do require contracts prior to construction.

And I think, as we've seen in the other pipelines where they can't get the contracts, they don't build the pipe. Where they do get the contracts and they've met all the criteria that the law requires, including environmental criteria, that they go forward.

So I think the balancing of interests was handled appropriately and well here. And although I recognize that not all landowners are happy, it is important to get the infrastructure from the places where the gas is to the places where the gas is needed.

I think it was done as thoughtfully as possible here, and I appreciate the hard work that you all did in putting the order together, but importantly, the work behind it in doing a collaborative process that otherwise have led

to be -- I think saving seven months is being a bit conservative. I think contested pipelines where you start off with ill will at the front end really tend to drag on not for months but years.

So I will vote to support the order.

COMMISSIONER BROWNELL: I would just like to add that while circumstances in the industry have in fact changed and we do have this condition in there, I think in this country we tend to look at almost everything, whether they be markets or infrastructure, in very short-term increments.

And we're not assuming when we approve these that the economy will continue to decline. Indeed, we need to be ready for them when the economy picks up. And I think we've certainly seen from our experience in the West and other places what happens when we haven't been looking forward and making plans for a future that will allow infrastructure to be built in a timely manner.

So I think we need to look at the picture, as indeed the staff has and we have, over a longer period of time, which is sometimes I can understand difficult for landowners and other stakeholders to see.

But as I've said on transmission lines, we're not building for next Tuesday, we're building for the next 20 years. So I too will be voting for this. And I thank the

staff for their work. And I'm hoping this up front cooperation, particularly with the agencies which we've begun to work on and is reflected I think in the hydro rulemaking, I think we're seeing results of that in very positive ways.

So I am hoping we can really continue to work on that. This is really essential for the economy of the country. We're getting better, and we need to be best at it.

COMMISSIONER MASSEY: I too would add my thanks to staff for their very worthy effort for this project, which I have followed for the past few months.

And I note that a number of changes in the route were made here to accommodate concerns of landowners and others. As with all projects, there are still concerns about it and how the project is built and where the pipe is laid. But the fact is that pipelines have to go someplace. They have to be laid someplace. And as Chairman Wood says, the natural gas has to get to where it's going to be used.

And so I think we have to continue to be careful about our siting determinations, and we are being careful, but we also need to be cognizant of the fact that the need for natural gas continues to grow over time. More pipe will have to be laid, pipeline capacity will have to be expanded to meet the needs of the marketplace.

The pipeline infrastructure becomes more gridlike over time, with the pooling points and market centers. It's more sturdy. It's more reliable. It's actually more interconnected, sort of like the high voltage transmission grid. And I think that's a very good thing. This project will play a key role in the development of the natural gas industry.

Anyway, I want to commend you for your hard work. I think this agency must continue to certificate new projects that are necessary for markets to thrive, and we must do so carefully, balancing all the interests. And I think that's what we've done here.

COMMISSIONER BROWNELL: Aye.

COMMISSIONER MASSEY: Aye.

CHAIRMAN WOOD: Aye. The closed meeting will begin at eleven o'clock. Meeting adjourned.

(Whereupon, at 10:35 a.m. on Wednesday, April 9, 2003, the Open Meeting adjourned.)